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European Review

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28 March 1986

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European Review (U)

28 March 1986

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	The EC Commission has signaled CEMA that the Community is prepared to resume talks on establishing formal ties between the two economic blocs. The negotiations, expected to begin this year, almost certainly will focus on political rather than economic relations. The 12 EC members believe that recent overtures from Moscow indicate a softening in Soviet antipathy toward the Community and that the CEMA member states may be willing to establish at least a political framework for future economic contacts.		

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Yugoslavia: PLO Ties and Terrorism

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Belgrade's close ties to the mainline PLO represent the most solid basis for Western charges that Yugoslavia plays more than a passive role in supporting international terrorism. In reacting to Western criticism, the regime may decide to restrict its contacts with other terrorist groups and even may become more circumspect in dealing with Arafat. Nevertheless, we believe Yugoslavia is unlikely to reduce its support of the PLO or become a reliable ally of Western governments in combating Palestinian extremists.

[redacted]

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Albania: Troubled Petroleum Industry

[redacted]

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EURAs Southeast European Branch, [redacted] with a contribution from [redacted]
[redacted] OGI [redacted]

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Lagging output from Albania's small petroleum industry is threatening to undermine Tirane's ability to import goods vital to reviving its faltering economy. The regime is responding with unrealistic demands on petroleum producers and—despite its xenophobia—seeking foreign assistance. We doubt, however, that Tirane can reverse the downward trend during the next few years because of tight financial constraints and a limited ability to absorb new technology.

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Public Opinion Polls

Western Europe: Views on the Soviet Presence in Afghanistan

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[redacted]

Economic News in Brief

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views. Comments may be directed to the authors, whose phone numbers are listed,

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Briefs**United Kingdom****The Miners' Strike—A Year Later**

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One year after the bitter miners' strike, Britain's National Coal Board has started on the difficult road to profitability by carrying out the restructuring program the National Union of Miners fought hard to prevent. Since the collapse of the strike last spring, the Coal Board cut its operating deficit sharply by closing 24 uneconomic pits and cutting 35,000 jobs. Productivity rose to a record 3.67 tons per manshift during the last quarter of 1985 and overall is 15 percent above the prestrike year of 1983. Despite these gains, British coal faces stiff competition from imports; even with transportation costs, imported coal is still about 10 percent cheaper than British coal. The Coal Board's return to profitability will also be slowed by falling oil prices. The Central Electricity Generating Board—the Coal Board's biggest customer—has successfully negotiated a lower price for its coal and is threatening to switch to its now idled oil-fired power station unless prices are dropped further.

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The past year has not been as kind to the miners' union or the Trades Union Congress (TUC); both face the dilemma caused by miners in several areas who did not join the strike and who have formed a rival union. Neither the TUC nor the Labor Party has recognized the new union, but the dissident miners have received preferential treatment from the Coal Board and will continue to be a source of contention within the labor movement. Moreover, Arthur Scargill, leader of the miners' union, has virtually disappeared from public view since Labor Party leader Kinnock excoriated him at last year's party conference.

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Adding to trade union disorder is the fact that neither the TUC nor the miners' union has learned to deal yet with Thatcher's increasingly popular labor reform laws. The legislation, especially its provisions for secret strike ballots and heavy fines for illegal pickets, proved very effective in undermining the union's tactics during the strike. Kinnock has pledged that a Labor government would repeal parts of Tory union legislation but at the same time has said he would enact other legislation. Labor-enacted legislation probably would incorporate some Thatcherite features to restrain the power of the unions.

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West Germany**Uneasiness Over MFA**

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West German officials are concerned that a restrictive US stance—calling for cutbacks and zero growth rates—in next month's renegotiation talks on the Multi-Fiber Arrangement (MFA) could undermine the more liberal position they see developing in the EC. A freer arrangement on the issue enjoys widespread West German support. Bonn hopes to offer increased market access for countries that open their own markets but wants to reduce access for countries that unfairly

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subsidize textile exports. West Germany—the world's second-largest textile and apparel exporter and importer—particularly wants to liberalize restrictions on offshore processing traffic on which its apparel producers depend. German officials also think textiles should be an important part of the new GATT round and arrangements made in the GATT should replace the next MFA.

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East Germany**New Protestant Church Leader**

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The League of Evangelical Churches—the association of Protestant, mainly Lutheran, churches in the GDR—elected Bishop Werner Leich the new chairman at its quadrennial synod on 2 February in East Berlin. Leich heads the Thuringian Lutheran church, widely considered the most conservative of the eight independent regional churches that make up the league, and he has a reputation as a churchman willing to work with the state. For example, he won government praise for heading the League's commission to celebrate 1983 as "Martin Luther Year" in conjunction with official events. GDR leader Honecker publicly congratulated Leich on his election, noting that his work for peace had been "characterized by trust in the policies of our state."

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According to US Embassy sources in East Berlin, younger activist pastors view Leich with distain, and before the election some in the church leadership sought to convince the moderate and widely esteemed incumbent, Bishop Hempel of Dresden, to stand for reelection. Leich is seen—perhaps unfairly—as not sensitive enough to the church's role as a guardian of human rights. He also appears temperamentally unsuited to deal with the "punks," dropouts, and youthful peace activists who have been flocking to the church for help in recent years.

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Leich's election appears less as a major break in church policy than the latest mark of the league's increasing caution in the past two years as it seeks to avoid political provocations while consolidating gains made from having accommodated itself to the power of the state. These gains have included a certain limited official acceptance of the church's legitimate role in society. Nonetheless, Leich is clearly more conservative than many church leaders, especially in the north, and friction is bound to develop in the league between so-called accommodationists and those who fear co-optation. The regime will try to exploit these divisions.

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Articles

**EC-CEMA: Improving Prospects
for a New Relationship**

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The EC Commission has informed CEMA that the Community stands ready to resume discussions on establishing formal ties between the two economic blocs. The negotiations, expected to begin this year, almost certainly will focus on political rather than economic relations. The Community traditionally has preferred conducting business with East European states bilaterally and undoubtedly will reject any bloc-to-bloc agreement with CEMA that precludes such contacts. Nevertheless, the 12 EC members believe recent overtures from Moscow signal a softening in Soviet antipathy toward the Community and are unlikely to torpedo establishing a political framework for future economic contacts with CEMA and its members.

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Overcoming Old Problems

Discussions between the two economic organizations were suspended in 1981 after six years of negotiations failed to overcome two difficulties. First, the EC maintained that fundamental differences between the two organizations—especially the absence of an integrated CEMA customs area, a common commercial policy, and a legally competent secretariat—limited the scope of any potential CEMA-wide trade agreement. The Community, therefore, rejected Moscow's proposal for establishing a joint committee to oversee bilateral trade and economic relations between the EC and individual CEMA states. Second, the Soviets refused to officially recognize the EC and the Commission's authority—a key demand of EC members—and, as a result, rejected EC attempts to expand bilateral ties to East European states.

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CEMA failed to respond in 1981 to a formal request from EC Vice President Haferkamp for its views on how to overcome these differences. The general

worsening of East-West relations in the early 1980s, the continued Soviet presence in Afghanistan, the East European debt crisis, and the declaration of martial law in Poland shattered what little prospects remained for continuing the negotiations.

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Despite Soviet hints of renewed interest in EC-CEMA talks in 1984, EC members were caught off guard in May 1985 when General Secretary Gorbachev expressed interest in renewing EC-CEMA contacts to visiting Italian Prime Minister Craxi. Moscow's apparent change of heart was confirmed a month later by a formal letter from CEMA to EC Commission President Delors requesting that discussions be resumed, and in September 1985 CEMA proposed establishing political ties between the two organizations as a first step toward "normalizing" relations. A major obstacle was also overcome when Moscow, as a result of EC efforts, reportedly dropped its objections to EC bilateral relations with CEMA countries. Last month the EC requested the views of individual CEMA members on establishing bilateral relations before committing itself to discussing a broader agreement with CEMA.

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Next Steps

We believe Community members view establishing a political framework with CEMA as basically a no-lose proposition and are committed to pursuing formal EC relations with East European states. Nevertheless, EC members almost certainly remain wary of Moscow's motives in pursuing an EC-CEMA agreement at this time and are likely to proceed slowly and carefully with the discussions. The US Mission to the EC believes the Community is stringing out further negotiations by requiring individual CEMA members to give their views on establishing formal relations before officially replying to CEMA.

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25X1 The EC's foremost fear undoubtedly is that Moscow will use an EC-CEMA agreement as a tool to enhance its control over the foreign economic relations of East European states. [redacted]

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25X1 [redacted] According to diplomatic reports, Hungarian officials told West German Foreign Minister Genscher that a detailed EC-CEMA agreement could strangle Hungary's economic ties to the West. We believe Moscow probably also is pressuring East European states to suspend any discussion of establishing economic relations with the EC until after an umbrella EC-CEMA agreement is signed. [redacted]

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25X1 [redacted]

EC members are well aware of the possibility that Moscow may view an EC-CEMA agreement as a potential wedge to divide the West, and we believe most EC members recognize that the Soviet Union is pursuing an EC-CEMA agreement, at least in part, for propaganda purposes. According to diplomatic reports, the EC Commission official responsible for negotiations with Eastern Europe believes that Moscow primarily is seeking to establish an international role for CEMA on a par with other international organizations. Moscow, for example, already has begun to seek office space in Brussels for a CEMA delegation. The Commission official notes, however, that neither CEMA nor the Soviet Union has addressed the political or economic aspects of improved EC-CEMA relations, and he believes CEMA will give short shrift to more substantive EC-CEMA discussions. [redacted]

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The Community is considering limited steps in the foreign policy area to ensure that the prospects of an EC-CEMA accord stay on track. In addition to requesting the views of individual East European capitals on an agreement, the EC-12 are considering sponsoring biannual luncheons in Moscow to keep ranking Soviet officials informed of EC policies. Moreover, the embassy of the EC presidency

country—which rotates among members every six months—probably will be given additional responsibilities to convey EC declarations and policies in East Bloc capitals. EC officials, however, will not consider more formal exchanges on foreign policy issues until after EC-CEMA relations are officially established, according to a diplomatic report. [redacted]

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Economic Stakes

EC officials do not expect any great surge in EC-CEMA trade as a result of an overarching agreement, but over time expanded relations with CEMA and its individual members should improve trade prospects, particularly in agriculture. European Community trade with the Soviet Union and Eastern Europe is not insignificant; in 1984 the Soviet Union and Eastern Europe accounted for almost 7 percent of extra EC exports and about 10 percent of extra EC imports.¹ EC sales to the East Bloc²—predominantly manufactured goods—rose nearly 30 percent from 1980 to 1984. During the same period, however, EC imports from the Soviet Union and Eastern Europe nearly doubled in value—from about 22 billion ECU to nearly 40 billion ECU (roughly \$17 billion and \$30 billion, respectively, at 1984 exchange rates) primarily because of increased energy imports from the Soviet Union. The Soviet Union remains the EC's fourth-largest trading partner; the value of Soviet trade is roughly one-quarter that of EC trade with the United States. West Germany accounts for about two-fifths of all EC trade with the Soviet Union and Eastern Europe, while France and Italy together are responsible for one-third. [redacted]

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East Bloc exports to Western Europe—with the exception of energy—have remained relatively stagnant since 1980 and the inability of East European states to expand sales to the West has dampened the prospects for increased East-West trade. Some West German officials contend that CEMA generally no longer can compete against Third World producers in the West European market.

¹ EC trade figures do not include Spain and Portugal, which joined the Community early this year. [redacted]

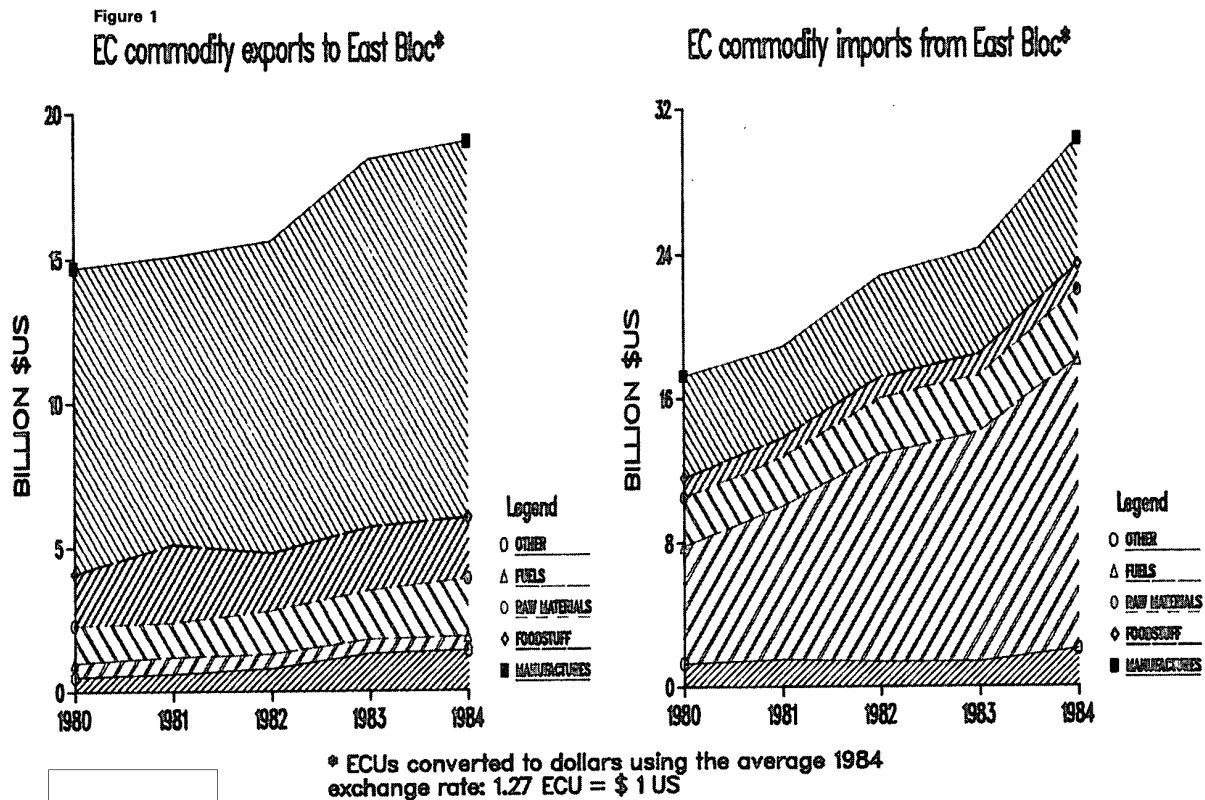
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² East Bloc in this article refers to the Soviet Union plus Poland, East Germany, Czechoslovakia, Hungary, Romania, and Bulgaria. [redacted]

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Furthermore, overcapacity in many West European industries—chemicals, petroleum refining, automobiles, and agriculture, to name a few—will continue to hamstring Soviet and East European strategies to increase exports to the West. [redacted]

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According to diplomatic reports, EC officials generally do not expect to significantly expand exports to the East Bloc—except possibly in grains, butter, and meat—through the end of the decade and therefore discount the economic benefits of an accord with CEMA. Some British officials contend that West European companies have lost their competitive edge in technology and that future sales to the East must depend on factors other than price. Even so, projections for continued high rates of unemployment in Western Europe almost certainly will sustain interest in even minimal sales of manufactures to Eastern Europe. [redacted]

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EC's Longer Term Objectives

Despite relatively dim prospects for expanding economic relations with Eastern Europe, EC officials see political payoffs in CEMA's proposal for

establishing formal ties to the Community. According to diplomatic reports, they contend a broadly worded EC-CEMA agreement could facilitate negotiating bilateral agreements with individual East European states and that Moscow has given the green light to this approach. To date, maverick Romania is the only East Bloc country to have concluded a bilateral economic agreement with the EC. [redacted]

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According to diplomatic reports, the EC Commission believes its recent discussions with Hungary—although stalemated over the terms of access to the EC market—attest to the Community's desire to expand bilateral relations with individual East European countries. Czechoslovakia and Poland also have expressed interest in concluding bilateral trade agreements. Only East Germany—which enjoys greater, but limited, access to the EC market through its special trade relationship with West Germany—and the Soviet Union remain uninterested in an economic agreement with the Community, according to diplomatic reports. [redacted]

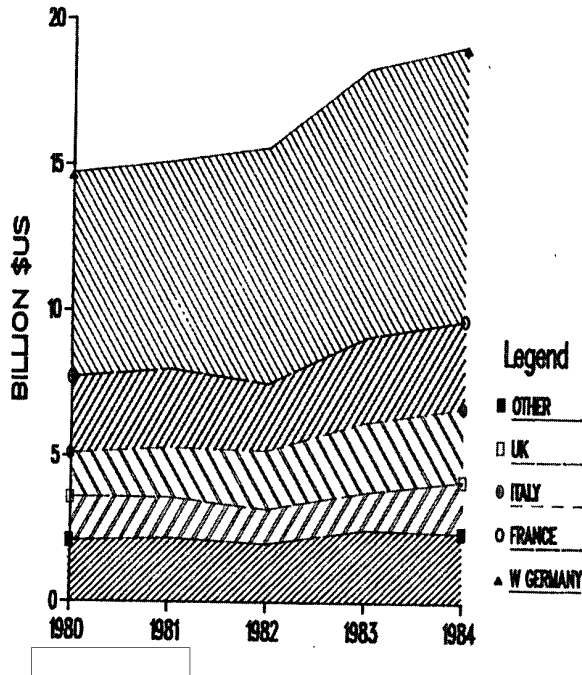
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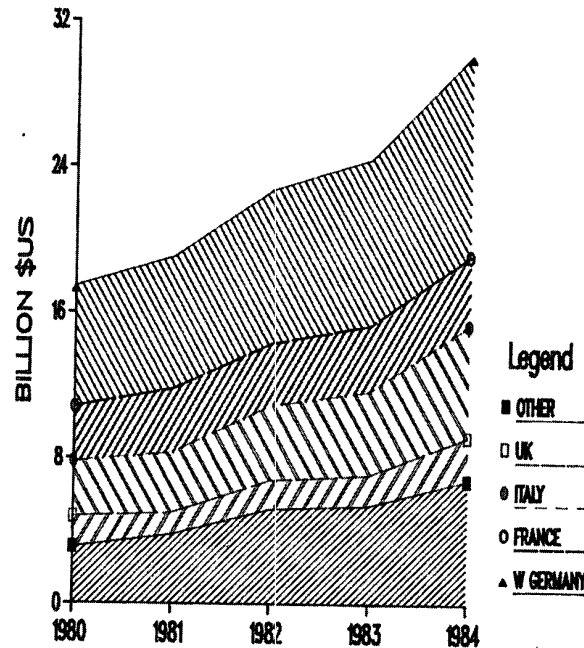
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Figure 2

EC exports to East Bloc



EC imports from East Bloc



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EC members apparently believe that an EC-CEMA political statement would confirm and contribute to the general warming in East-West relations as well as the Bloc's official recognition of the EC. According to diplomatic reports, an EC Commission official believes EC members generally are looking for "detentiste" gestures. The EC clearly placed a future accord with CEMA in this broader context by postponing its reply to CEMA's proposal for formal relations until after the Geneva summit last

November. We believe EC members remain uncertain over the course of future relations with the Soviet Union, but they undoubtedly see the opening by CEMA as an opportunity to develop wider, more active relations with East European states.

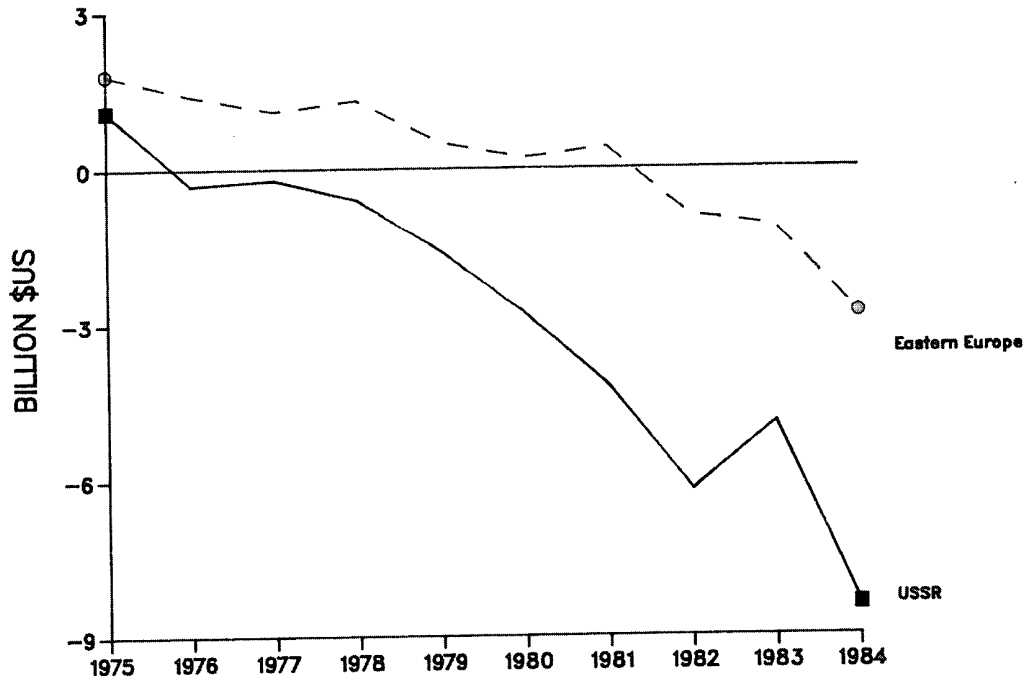
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The development of an EC-CEMA dialogue also would provide West European countries, as a group, with a forum to discuss East-West relations

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Figure 3
European Community: Trade Balance With USSR And
Eastern Europe, 1975-1984



independent of NATO. We believe a future EC-CEMA agreement probably will parallel the EC's already negotiated, broadly worded, political framework agreements with ASEAN and the Central American states that cite the desirability of improved

relations and establish regular meetings of foreign ministers.

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Yugoslavia: PLO Ties and Terrorism

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Belgrade's close ties to the mainline Palestine Liberation Organization (PLO) represent the most solid basis for Western charges that Yugoslavia plays more than a passive role in supporting international terrorism. The regime has had sporadic contact in the past with more radical Palestinian factions—including Abu Nidal and the Popular Front for the Liberation of Palestine Special Command (PFLP-SC)—and it continues to cultivate links to South African insurgent groups such as the South-West Africa People's Organization (SWAPO), the African National Congress (ANC), and the Pan-Africanist Congress (PAC). But the Yugoslavs have invested little in these relationships compared with what they have accorded the mainline PLO in diplomatic support, material assistance, and military training. In reacting to Western criticism, the government may decide to restrict its contacts with some of these terrorist groups and even may become more circumspect in dealing with Arafat. Nevertheless, we believe the regime is unlikely to reduce its support of the PLO or become a reliable ally of Western governments in combating Palestinian extremists.

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Diplomatic Support

Yugoslavia's backing of the Arab and Palestinian sides in their dispute with Israel dates from Tito's close relationship with Nasser in the 1950s during the formative years of the Nonaligned Movement. Tito made no secret of his pro-Arab tilt or his sympathy with the PLO. He allowed Soviet cargo aircraft to fly over Yugoslavia en route to Egypt during its 1967 war with Israel, and he pushed hard in 1975 for the UN resolution condemning Zionism as a form of racism. While denouncing the threat to Yugoslavia of Croatian terrorists abroad, Tito permitted PLO terrorists to pass freely through his own country. He approved the opening in Belgrade in the 1970s of a PLO diplomatic mission, which continues to cooperate with the Yugoslav Government in monitoring the activities of Palestinian radicals transiting or residing in the country.

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The Yugoslav Government regularly receives high-level PLO visitors; Arafat was received warmly by State President Vojakovic in Dubrovnik earlier this year. In late January, Abu Jihad (Halil al-Wazir), Fatah's deputy military commander and a veteran of numerous anti-Israeli terrorist operations, met in Belgrade with the Yugoslav Ministers of Defense, Foreign Affairs, and Internal Affairs, and with other senior officials. According to the Yugoslav press, Abu Jihad was promised continued "comprehensive" support in the struggle against Israel.

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Even in the wake of the Achille Lauro affair last October, Belgrade has softened neither its pro-Arab slant nor its staunch support for the PLO despite its expressed willingness to cooperate more closely with the West on terrorism. In January, Deputy Foreign Minister Loncar asserted that the United States and Israel shared equal responsibility with Libya for heightened tensions in the Mediterranean.

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Military Training

Belgrade continues to provide military training for the mainline PLO. The Jordanian press recently quoted a Palestinian source in Amman who affirmed that members of the Palestine Liberation Army are receiving training in Yugoslavia. PLO members have undergone such training since the early 1980s.

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Other Links

[redacted]

[redacted] Sporadic relations with Abu Nidal—which in the early 1980s involved Yugoslavia’s granting of safehaven and possibly the provision of some arms and training—peaked during preparations for the Sarajevo Winter Olympics in 1984, when Belgrade apparently was trying to use its contacts to prevent terrorist threats at the games. [redacted]

[redacted]

Abu Nidal terrorists continue to transit Yugoslavia and conduct support operations there, but the regime appears to have curbed contacts with their leadership over the past year or so, increased surveillance of Abu Nidal activities in the country, and shared the information with the PLO. Belgrade openly condemned Abu Nidal for the first time following the Rome and Vienna airport attacks in December. The State Presidency, which oversees foreign and security policies, apparently is now attempting to distance itself from Abu Nidal with its public denunciations of terrorism, although we would not rule out a resumption of [redacted] contacts if Belgrade should again perceive it to be in its interest to do so. [redacted]

Among African groups, SWAPO and the Polisario now have political offices in Belgrade, and the Yugoslavs are cultivating closer relations with the ANC and the largely inactive PAC. [redacted]

[redacted] We expect Yugoslav support for African insurgents, including military training, to increase over the next few years. [redacted]

Yugoslavia’s reputation as a transit point for international terrorists has hurt its international image, even though the government most likely has little control over such movements. [redacted]

[redacted]

Belgrade also suffers because of its activity on the “gray arms market” through which middlemen have funneled Yugoslav arms to insurgents in Latin America on at least a few occasions. Although the government is involved in these transfers, we are not certain that it knows the destination of the arms. And, while Belgrade undoubtedly refrains from encouraging activities of Libyan-backed terrorists outside Yugoslavia, it continues to risk guilt by association [redacted]

[redacted]

Motivations for Supporting Terrorist Groups
Belgrade probably perceives its support of the PLO as strengthening its hand within the Nonaligned Movement, which it cofounded and now is a leader of the moderate wing. In recent years Yugoslavia has been under assault from Cuba and other nonaligned radicals—as well as Moscow—for its allegedly lax record in supporting anti-Western causes. Thus, Belgrade probably felt vindicated by the Movement’s favorable reaction to its support for Abu Abbas in the Achille Lauro affair. [redacted]

Economically, Belgrade has long sought to maintain its good standing among the Arab states. The Arabs account for a large share of Yugoslavia’s annual billion-dollar arms export trade and provide a growing market for exports of machinery and chemicals. Yugoslavia earns substantial foreign exchange from civilian and military planning, engineering, and

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construction projects in Libya and Iraq and, in recent years, has accepted partial payment in oil for these services. []

Belgrade also seems motivated by concern for its own security. It has long been worried about terrorist attacks both in the country and against its interests abroad, dating from the assassination of King Aleksandar in Marseilles by Croatian extremists in 1934. Belgrade probably calculates that it can prevent attacks on Yugoslav territory by some groups—such as Abu Nidal—by cooperating with them. Yugoslav security officials probably also hope that they will receive warnings of impending attacks by other organizations from friendly groups tied to the global terrorism network. []

ties. It probably will cooperate with Western governments against extremist groups that have little support among states it considers important, such as the Armenian groups mentioned by the Austrian official. We believe the regime's controversial military and diplomatic support for the mainline PLO will continue, regardless of Western concern. If, in the foreseeable future, Western interests clash with those of the mainline PLO—as was the case in the Abu Abbas affair—the Yugoslavs probably again will come down on the side of the terrorists, leaving relations with the West to be repaired later. []

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Reactions to Western Criticism

The regime is coming under increasing pressure from its Western neighbors following media reports that terrorists have transited Yugoslavia en route to West European targets. After Secretary Shultz's visit in December, both Italian President Cossiga and Austrian Interior Minister Blecha also pressed Belgrade to act more decisively against terrorism.

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While perhaps slow to realize how seriously Washington regards the issue, Yugoslavia has responded with gestures intended to mollify Western governments. In early February, the Austrian Interior Minister told the press that Belgrade had agreed to share information on Armenian and some Palestinian terrorist groups. In early March, a small delegation of Yugoslav security officials came to Washington to discuss closer cooperation on terrorism. []

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We consider Yugoslavia's moves so far as largely cosmetic, however, and doubt that they will satisfy most Western governments. Belgrade is unlikely to provide much useful information to Vienna, particularly after a public announcement of the agreements, and its exchanges with Washington are likely to develop slowly. []

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Implications for the West

The Yugoslav regime probably will continue efforts to demonstrate its commitment to curbing international terrorism but is unlikely to risk damaging its Arab

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Albania: Troubled Petroleum Industry

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A persistent decline in output from Albania's modest petroleum industry is threatening to undermine Tirane's ability to import goods vital to reviving its faltering economy. The regime is responding by placing unrealistic demands on its petroleum producers and—despite its xenophobia—seeking foreign assistance. We doubt, however, that Tirane can reverse the downward trend during the next few years because of tight financial constraints and a limited ability to absorb new technology. []

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Plight of the Industry

Despite relatively large infusions of capital, the petroleum industry has been plagued by declining output since the early 1980s. The US Bureau of Mines estimates that annual production of crude oil fell from a peak of 34,000 b/d in 1981 to 28,000 b/d in 1984, and the government announced a further—though unspecified—drop in 1985. Albanian leaders have indicated the slump is attributed to the exhaustion of existing wells. At the same time, they concede that little exploration for new reserves is taking place because of mismanagement and lack of expertise. Aging technology, most of it purchased from Romania over the past three decades, almost certainly has aggravated the problem. []

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The decline in oil production has cut deeply into Albania's hard currency trade. Partner country trade data indicate that the volume of petroleum exports fell by one-third in 1983, accounting for much of the 25-percent decline in the value of exports to OECD markets. Although data on commodity exports for 1984-85 are unavailable, petroleum sales probably continued to fall—reflected in the further 10-percent drop in exports to the OECD. The loss of exports has forced a 31-percent reduction in imports from 1982 to 1985 because Albania refuses to borrow, importing only what it can pay for with countertrade or cash. Industrial growth almost certainly has been constrained by the drop in imported raw materials, intermediate goods, and equipment. []

A Top Priority

Albanian leaders have long considered the petroleum industry a major economic priority. Party leader Ramiz Alia revealed last summer that Tirane directs on average one-third of all industrial investment funds into petroleum production and that 10 percent of the industrial work force is employed in the industry. [] domestically produced oil and natural gas supply 60 percent of the country's energy requirements, and partner country trade data show that petroleum sales provide 25 percent of its hard currency export earnings. Hydropower, gas, and coal-fired thermal plants provide the remainder of its energy consumption. []

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Albania's economy apparently has suffered only small cuts in petroleum supplies. The country's fleet of trucks is the primary consumer of petroleum since private cars are not allowed. In recent years government planners have complained about problems in the transportation sector and focused resources on expanding the rail and coastal freighter systems, suggesting that even the limited cuts have caused some problems for the economy. []

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Searching for a Solution

Tirane probably prefers Western technology to revive its oil industry but faces financial constraints. Albania earns only \$100-200 million per year in hard currency through trade with the West and occasional hard currency sales to CEMA countries. Besides drilling and exploration equipment, Albania probably needs modern secondary recovery technology to increase production in degraded fields. Albania would also need to obtain Western expertise to install and—at least in the short term—operate new machinery. []

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Albania: Economic Indicators

	1979	1980	1981	1982	1983	1984	1985
Crude oil production (barrels per day)	32,000	34,000	34,000	32,000	30,000	28,000	Below 28,000
Exports to hard currency (OECD) markets (million US \$)	92	109	120	149	111	107	100 ^a
Exports of oil products (barrels per day)	4,441	4,526	5,342	5,159	3,408	NA	NA
Apparent domestic petroleum consumption (barrels per day)	27,559	29,474	28,658	26,841	26,592	NA	NA
Growth in total investment (percent)	7.6	8.4	5.8	NA	4.0	-8.5	-4.4
Growth in industrial output (percent)	8.0	7.1	6.5	4.7	3.0	3.3	NA

^a Estimated.

Sources: IMF, official Albanian publications, and US Bureau of Mines.

On the basis of the size of the industry, we estimate that it would cost Albania \$50-100 million over the next five years to import Western petroleum technology to modernize its existing oil industry and halt the slide in production. Moreover, a mere 30 Western technicians earning \$50,000 per year would absorb approximately 1 percent of the country's foreign exchange earnings. Albania thus would have to divert from other needed imports 10 to 20 percent of its hard currency earnings with perhaps no greater result than stabilizing production at current reduced levels. []

Tirane has responded in part by turning to Algeria for help, apparently in hopes of obtaining expertise and Western equipment on barter terms. Last February, Foreign Minister Malile traveled to Algiers—the first official bilateral visit by an Albanian foreign minister since 1967—where he spoke with officials in the petroleum industry. His trip coincided with a visit by Algerian petroleum experts to Albania. Algeria in the past has helped Tirane obtain small quantities of US-made oil equipment and, as a distant and nonaligned country, is probably an acceptable partner to the suspicious Albanian regime. []

The regime reportedly has considered direct contact with Western firms from Italy and Norway but has closed no deals—presumably because of cost, ideological considerations, and lingering fears of Western economic domination. Albania's constitutional prohibition on joint ventures or direct foreign investment almost certainly has torpedoed any Western efforts aimed at sidestepping its shortage of hard currency. []

Tirane evidently has not looked to the Soviet Bloc for assistance. Official media cite East European dependence on the Soviet oil industry as one of Moscow's tools for assuring its domination. A 1986 trade protocol with Romania, however, indicates that Tirane continues to import some oil equipment and spare parts. []

In addition to looking for outside assistance, Albanian planners have resorted to imposing unrealistic demands on petroleum enterprises. The 1986 plan, for example, calls for an increase of 18 percent in oil and gas production. Total investment in energy

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development, however, apparently fell 13 percent in 1984-85, and the 1986 plan calls for an increase of only 2 percent.

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Outlook

Albania in the next few years probably will do well merely to stabilize petroleum production despite the plans for applying new technologies. Even should Tirane arrange soon for major imports of oil equipment, the industry could not absorb them overnight. Albania will continue to face a choice between maintaining hard currency earnings from exports and assuring sufficient domestic energy supplies.

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We see little potential for other exports to replace lost earnings from oil sales. Even usually optimistic state planners, for example, project no more than a 2.9-percent increase in production of chrome ore, Albania's second-ranking export. World chrome prices, moreover, fell almost 20 percent during 1985 alone. Nor are prospects good for creating conservation programs or for substituting other energy sources for oil.

25X1

As a consequence of all these factors, other sectors of the economy will continue to suffer. The Albanian leadership is likely to encounter increasing resentment from a population already suffering from the effects on living standards of five years of slipping rates of economic growth. It also may find itself divided over solutions to the problem and faced with an economic bureaucracy wrangling over who to blame for shortfalls and which sectors should bear the greatest burden.

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**Western Europe:
Views on the Soviet
Presence in Afghanistan**

25X1

Public Opinion Polls

As Western governments contemplated the sixth anniversary of the Soviet invasion of Afghanistan, a USIA-commissioned public opinion survey taken in December in Britain, France, West Germany, Italy, and the Netherlands indicated little public interest in the issue. Although the largest number of those expressing an opinion believed that Soviet troops support an oppressive regime, substantial proportions in each country offered no opinion about the Soviet occupation. The issue ranked behind most other world problems, and those surveyed were unwilling to recommend strong countermeasures.

25X1

An overwhelming majority of those expressing an opinion believed the troops are there to prop up a "pro-Soviet government that oppresses its own people" rather than to help support a legitimate government fight off insurgents aided from outside the country. However, nearly 45 percent of those questioned in France, Britain, and West Germany gave no opinion about the objectives of the Soviet military presence as did a quarter of the respondents in Italy and the Netherlands.

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Respondents considered Afghanistan an international issue of relatively low importance, ranking it fourth behind the growth in nuclear weapons, conflicts in the Middle East, and racial conflict in South Africa. Only the fighting in Central America was thought to be of lesser importance.

The survey also indicated a decrease in public interest in having their governments respond to the issue compared with a survey taken in 1984. When asked what action their country should take against the presence of Soviet troops in Afghanistan in a 1984 USIA poll, the number expressing no opinion ranged from 6 to 12 percent. By 1985, the proportion with no opinion had grown from 10 to 31 percent. The

greatest increase in "no opinion" was in West Germany, where the number of such responses jumped from 11 to 31 percent; the only nation where this percentage showed no significant increase was Italy (from 12 percent in 1984 to 13 percent in 1985).

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The governmental response recommended by those surveyed further reflects European apathy about the situation in Afghanistan. Only a small percentage felt their government should take concrete measures such as imposing sanctions (18 percent in France, 15 percent in the Netherlands, and less than 10 percent in the other countries) or supplying military equipment to the Afghan rebels (10 percent in France and 5 percent or less everywhere else). The largest portion of those expressing an opinion supported the use of diplomatic pressure against the USSR. Giving humanitarian and economic aid to the resistance forces was the second most frequently preferred action. But the percentage of people who preferred their government take no action was greater than the number supporting humanitarian aid in Britain, West Germany, and Italy; in fact, the West Germans recommended no action as frequently as they did diplomatic pressure.

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EUR ER 86-008
28 March 1986

Preferred Reactions to Soviet Troop Presence in Afghanistan

Question

Which one or two of the things listed below do you think (your country) should do about the presence of Soviet troops in Afghanistan?

- Do nothing
- Use diplomatic pressure against the Soviet Union
- Give the resistance forces humanitarian and economic aid

- Supply the resistance forces with military equipment
- Enact sanctions against the Soviets, such as reducing or cutting our trade with them
- No opinion

Responses

	Percent									
	Britain		France		West Germany		Italy		Netherlands	
	Oct 1984	Dec 1985	Oct 1984	Dec 1985	Oct 1984	Dec 1985	Oct 1984	Dec 1985	Oct 1984	Dec 1985
Totals ^a	114	105	118	118	123	109	108	112	118	133
<i>Do nothing</i>	24	23	23	12	19	23	22	25	19	12
<i>Diplomatic pressure</i>	41	38	38	32	42	23	41	51	57	66
<i>Humanitarian and economic aid</i>	20	12	24	21	33	20	19	10	19	25
<i>Military equipment</i>	5	3	6	10	6	3	2	4	4	5
<i>Sanctions against the USSR</i>	15	6	16	18	12	9	12	9	13	15
<i>No opinion</i>	9	23	11	25	11	31	12	13	6	10

^a Totals sum to more than 100 percent because respondents were allowed to give up to two responses.

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Economic News in Brief

Western Europe

West German consumer prices fell 0.2 percent in February from January and were up only 0.7 percent over a year ago . . . lowest since the 1960s . . . already good inflation control improved by weak dollar and falling oil prices . . . we expect inflation to average 1 percent or less this year.

25X1

West German institute study underscores several key contributors to stubbornly high unemployment . . . rising employer-paid social benefits now average 80.2 percent of wages . . . narrowing wage differential between skilled and unskilled workers leading to sharp cutbacks in use of the lesser skilled . . . inadequate regional and industrial wage differentials a factor in low labor mobility.

25X1

Spanish economy grew 1.7 percent in 1985, half point lower than a year earlier, but only 0.1 point below government target . . . largely a result of absence of spectacular growth rates in export and agricultural sectors in 1984 . . . despite results, Madrid to continue on present austerity course.

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